

13 April 2021

Q3 FY21 TRADING UPDATE

ZIP CONTINUES TO ACCELERATE

Zip Co Limited (ASX: Z1P) ("**Zip**", or the "**Company**") is pleased to announce today its Q3 results for the period ending 31 March 2021.

KEY HIGHLIGHTS (Q3 FY21)

* Note: all figures in AUD unless otherwise specified.

- **Record group quarterly revenue of \$114.4m (up 80% YoY).**
- **Quarterly transaction volume of \$1.6b (up 114% YoY).**
- **Record transaction numbers for the quarter of 12.4m (up 195% YoY).**
- **Customer numbers increased to 6.4m (up 88% YoY).**
- **Merchants on the platform increased to 45.3k (up 81% YoY).**
- **Zip US (Quadpay) was again a standout, delivering significant growth in what is typically a seasonally quieter trading period, achieving record results across all core metrics – \$762.0m in transaction volume (up 234% YoY), \$54.4m in revenue (up 188% YoY) with 674k new customers joining the platform (up 153% YoY to 3.8m customers).**
- **Zip ANZ continued its strong momentum with transaction volume of \$837.3m (up 61% YoY) and customer numbers increasing to 2.6m (up 37% YoY). Zip ANZ quarterly revenue of \$57.9m was up 10% QoQ (up 37% YoY) despite seasonal trends, demonstrating Zip’s robust and differentiated revenue model.**
- **Marquee merchants to join the platform included Microsoft, Boohoo, JD Sports, JB HiFi, The Good Guys, L'Occitane, Boardriders and Adore Beauty.**
- **Net bad debts reduced to 1.78% (from 1.93%) for AU receivables, a very strong result further validating the strength of Zip’s proprietary credit decision technology and ability to manage risk.**
- **Completed an oversubscribed and upsized \$500m issuance from the Zip Master Trust to fund AU receivables, with a material reduction in the weighted average cost of capital (over 1%).**
- **App downloads remain very strong with 1.6m new downloads globally for a total of 7.6m downloads.**
- **The group’s capital efficiency remains very healthy with the book recycling every 3 months on a blended basis.**

CEO UPDATE

Zip Managing Director and CEO Larry Diamond said:

“We are extremely pleased with the strong growth and momentum in the business, delivering another exceptional set of numbers. Our US business was again a standout, confirming our position as truly one of the fastest growing global BNPL leaders. The resilience of the UK team is now delivering results and we look forward to a very exciting future for that region. It was fantastic to see more lighthouse brands join the platform and the global merchant pipeline is extremely healthy. Our focus on unit economics continues to provide a point of difference and points to a strong bottom line at scale. We continue to innovate and deliver new features to our customers in line with our mission to become the first payment choice everywhere, every day.”

BUSINESS PERFORMANCE

Pro-forma figures based on Zip’s unaudited financials as of 31 March 2021.

Zip delivered strong Q3 results across its BNPL operations in Australia, New Zealand and the United States (Quadpay):

Financial Performance (AUD) ¹	Q3 FY21	QoQ	YoY
Revenue	\$112.3m	10% ↑	83% ↑
USA	\$54.4m	10% ↑	188% ↑
ANZ	\$57.9m	10% ↑	37% ↑
Transaction Volume	\$1,599.3m	1% ↓	114% ↑
USA	\$762.0m	8% ↑	234% ↑
ANZ	\$837.3m	8% ↓	61% ↑
Transactions	12.4m	16% ↑	195% ↑
USA	4.5m	7% ↑	246% ↑
ANZ	7.9m	22% ↑	172% ↑

¹ Unaudited management accounts. All financial figures are translated into AUD using the average quarterly foreign exchange rates for the respective quarter. Comparatives which include entities not acquired in comparative periods are reported on a pro-forma basis.

Operational Performance¹	Q3 FY21	QoQ	YoY
Customers²	6.4m	12% ↑	88% ↑
USA	3.8m	19% ↑	153% ↑
ANZ	2.6m	4% ↑	37% ↑
Merchants³	45.3k	18% ↑	81% ↑
USA	13.0k	55% ↑	550% ↑
ANZ	32.3k	7% ↑	40% ↑

REGIONAL UPDATES

Zip US (Quadpay)

Pro-forma figures based on Zip's unaudited financials as of 31 March 2021.

Financial Performance¹	Q3 FY21 (USD)	Q3 FY21 (AUD)	QoQ (USD/USD)	YoY (USD/USD)
Revenue	\$42.1m	\$54.4m	16% ↑	240% ↑
Transaction volume	\$589.0m	\$762.0m	14% ↑	293% ↑
Transactions	4.5m	4.5m	7% ↑	246% ↑

Operational Performance¹	Q3 FY21	QoQ	YoY
Customers ²	3.8m	19% ↑	153% ↑
Merchants ³	13.0k	55% ↑	550% ↑

Zip US (Quadpay) was again a standout performer, with significant growth quarter on quarter despite this being a seasonally weak period. Q3 delivered record transaction volume, revenue and customer growth, with these key metrics increasing significantly YoY.

- Transaction volume for Q3 FY21 increased 293% YoY, and 14% QoQ to US\$589.0m (A\$762.0m).
- March transaction volumes exceeded December by over 10%, which is an outstanding result demonstrating the significant momentum in the US business.

² Number of active customer accounts.

³ Number of accredited merchants.

- Based on March 2021, Zip US generated annualised transaction volume of US\$2.8b (A\$3.6b)¹.
- Revenue as a percentage of transaction volume remains extremely healthy at over 7%.
- 674k customers joined the platform, with the app downloaded 1.3m times in the quarter.
- Continued strong demand from merchants, with over 5k joining the Quadpay platform in Q3 for a total of 13.0k merchants (up 55% QoQ).
- Net transaction margin continues to remain stable, well in excess of 2%, demonstrating very strong unit economics.

Quadpay co-CEO Brad Lindenberg said:

"This quarter has seen Quadpay continue to gain momentum with very strong growth being delivered by our differentiated approach within the BNPL market. Quadpay delivered a record quarter processing US\$589m in TTV in fiscal Q3 (up 293% YoY). Our Q3 volumes put the business ahead of our 2020 holiday quarter (fiscal Q2) by 14% which is typically a seasonal peak due to Q2 sales of Black Friday, Cyber Monday and Christmas. We are extremely pleased with these results which demonstrate the continued acceleration of the business and strong adoption of our product by consumers in the world's largest eCommerce market."

Zip ANZ

All key operating metrics include Zip's BNPL operations in Australia and New Zealand, based on Zip's unaudited financials as of 31 March 2021.

Financial Performance¹	Q3 FY21 (AUD)	QoQ	YoY
Revenue	\$57.9m	10% ↑	37% ↑
Transaction volume	\$837.3m	8% ↓	61% ↑
Transactions	7.9m	22% ↑	172% ↑

Operational Performance¹	As at 31 Mar 2021	QoQ	YoY
Customers ²	2.6m	4% ↑	37% ↑
Merchants ³	32.3k	7% ↑	40% ↑

Credit Performance (AUD) ¹	As as 31 Mar 2021	As at 31 Dec 2020	As at 31 Mar 2020
Arrears ⁴	1.20%	0.95%	1.55%
Net Bad Debts ⁵	1.78%	1.93%	1.84%
Receivables ⁶	\$1,636.1m	\$1,456.8m	\$1,126.0m

Zip ANZ delivered strong results across all key metrics:

- Record quarterly revenue of \$57.9m for the region (up 37% YoY).
- Quarterly transaction volume of \$837.3m was processed on the platform, up 61% YoY. The QoQ movement (-8% QoQ) is directly in line with historical results (-8% in both Q3 FY20 & Q3 FY19) off the back of seasonal peaks in Q2.
- Record transaction numbers processed in Q3 (up 172% YoY) as Zip customers are becoming increasingly engaged and embrace new product features such as Tap & Zip.
- New customer sign-ups remained strong with over 230k new accounts opened in the quarter.
- App downloads remained very healthy with 242k new downloads for a total of 2.5m in AU, with 61k new downloads for a total of 446k in NZ.
- Net bad debts decreased to 1.78% (down from 1.93% at the end of Q2) in line with management expectations and further demonstration of Zip's market-leading proprietary credit decision technology and risk management controls.
- There are now more than 32k merchants directly offering Zip across Australia and New Zealand. Outside of Zip's closed loop network, customers have transacted at more than 200k physical locations using Tap & Zip, continuing to drive adoption.

Zip UK

The UK remains a significant regional opportunity and a key strategic focus for the Company, that will be a strong driver of growth throughout 2021. Zip launched in the UK late 2020 with the successful deployment of the Quadpay technology platform in Q3. Zip was pleased to announce a number of flagship merchants joining the platform, including Homebase, JD, Boohoo and The Fragrance Shop with a very healthy pipeline building. Zip's ability to support global retailers via one integration for multiple markets (inc AU, UK, SA and US) is proving to be a strong competitive advantage across its markets.

⁴ Australian figures only. Arrears defined as those accounts greater than 60 days delinquent.

⁵ Australian figures only. Bad debts defined as those accounts greater than 180 days delinquent. All figures are on an annualised basis.

⁶ Amounts due from customers.



The Zip app was released to the app store in late March. The utilisation of virtual card technology, a key pillar in the UK strategy, is set to be deployed in Q4. This feature will allow Zip customers to transact anywhere, online or instore, providing Zip customers with instant access to all of their favourite merchants.

ZIP BUSINESS

Zip Business remains a key strategic growth pillar for the Australian business. Following the successful launch of Zip's BNPL business product *Zip Trade* (credit lines up to \$3,000), the Company has now started to scale customer acquisition and transaction volume. Product results are demonstrating healthy engagement with an average of 2.8x transactions per user per month and an average order value (AOV) of \$519. The end of the quarter also saw the launch of *Zip Trade Plus* (credit lines up to \$150k), with the intention to drive customer acquisition and utilisation in Q4.

Zip Capital (previously Spotcap) receivables are now back above pre-Covid levels, with arrears and hardship requests back to historical levels. In New Zealand, the Company was accepted into the NZ Govt Guarantee scheme.

We have continued to develop our partnership with Facebook to help support small businesses to grow, as well as signing some strong B2B partners that will launch in Q4. This provides more places for our Zip Business customers to transact, interest free.

NEW MARKETS

Outside of Zip's core markets of Australia, New Zealand, US and the UK, the Company is investing in New Markets to expand its global footprint across both the developed and developing world. The aversion to traditional credit cards, long term revolving debt and the rapid adoption of BNPL is truly a global phenomenon.

During the quarter Zip made a number of key moves:

- A soft launch into Canada, driven by US merchant demand, and the build out of an initial local presence.
- Agreed terms for a strategic investment into South East Asia via leading Philippines BNPL player, TendoPay.
- A follow-on investment into leading Eastern European BNPL player, Twisto.

CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at 31 Mar 21	Maturity
AU	Zip Master Trust - Rated Note Series *2019-1	\$475.0m	\$475.0m	Aug-21
	*2020-1	\$285.0m	\$285.0m	Oct-22
	*2021-1	\$475.0m	-	Apr-24
	- Variable Funding Note	\$513.7m	\$267.4m	Feb-22
	2017-1 Trust	\$360.0m	\$323.0m	May-21
	2017-2 Trust	\$70.0m	\$47.0m	Dec-22
	Total	\$2,178.7m	\$1,397.4m	
US	AR2LLC	US\$150.0m	US\$111.9m	Dec-21
SME	Zip Business - Capital	A\$47.9m	A\$33.4m	Jan-22
	- Trade/Trade+	A\$100.0m	A\$5.5m	Feb-22
	Total	\$147.9m	\$38.9m	

Zip AU remains well placed with external facilities totalling \$2,178.7m, comprising rated and unrated note series to fund its consumer receivables. As at 31 March 2021 \$1,397.4m was drawn, with \$781.3m undrawn and available.

Zip completed the third rated issuance in the Zip Master Trust during March 2021 (Series 2021-1), raising \$475m from external investors, bringing total external funding provided through rated issuances to \$1,235 million (the Variable Funding Note is unrated). The continued strong performance of the receivables portfolio, translated into a two notch ratings upgrade bringing the weighted average margin on the transaction to 1.73% +BBSW (excluding Zip Notes) delivering a reduction of over 1% from the second rated issuance, which was an outstanding result. In its next transaction, due in August 2021 to refinance Series 2019-1, Zip anticipates the Senior Notes to achieve a AAA rating, which, subject to market conditions, should lead to further reductions in the weighted average cost of capital.

Zip is currently in the process of renewing the 2017-1 facility for a further 2 years.

For its US operations, the Company currently has an off-balance sheet funding facility (Goldman Sachs is the senior lender) totalling US\$150m, of which US\$111.9m was drawn at 31 March 2021..



Zip Business has facilities totalling \$47.9m (\$33.4m drawn) across Australia and New Zealand for Zip Capital, with an additional \$100m facility (\$5.5m drawn) for the SME BNPL lending products Trade and Trade Plus.

Release approved by the Chief Executive Officer on behalf of the Board.

- ENDS -

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About Zip

ASX-listed Zip Co Limited (ASX: Z1P) is a leading player in the digital retail finance and payments industry. The company offers point-of-sale credit and digital payment services to the retail, home, health, automotive and travel industries. Zip has operations across the US, Australia, New Zealand, the United Kingdom, Canada, Europe, South Africa, and the Middle East. Zip also owns Pocketbook, a leading personal financial management tool. The company is focused on offering transparent, responsible and fairly priced consumer and SME products. Zip's platform is entirely digital and leverages big data in its proprietary fraud and credit-decisioning technology to deliver real-time responses. Zip is managed by a team with over 100 years' experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zip.co